



## **MINUTES**

### **EASTERN PARTNERSHIP PLATFORM 3: "Energy Security"**

#### **4<sup>th</sup> WORKSHOP OF EASTERN PARTNERSHIP ENERGY REGULATORY BODIES**

**26 - 27 March 2015 - Chisinau**

#### **"UNDERSTANDING THE IMPACT OF REGULATORY INCENTIVES"**

#### **Summary:**

The 4<sup>th</sup> workshop of the Eastern Partnership energy regulatory bodies took place in the Republican Palace in Chisinau, Moldova on 26 and 27 March 2015. It was co-organized by the European Commission and the Council of European Energy Regulators (CEER). It contributed to the objective "approximation of regulatory frameworks" of the work program for the period 2014-2017 of the Eastern Partnership Platform on energy security.

The audience included regulatory authorities from the EU and the partner countries as well as ministry representatives and other bodies. The participant's lists as well as the agenda are attached to the minutes.

The overall aim of this year's workshop was to share the principles of various tariff models and the impact of cost-reflective energy prices on the behavior of different market participants (grid operators, investors, customers) in the EU and the Eastern Partner countries.

The workshop was complemented by a field trip to the reverse flow pipeline between Moldova and Romania (Ungheni-Iași pipeline) located in Ungheni at the Moldovan/Romanian border which started its work on 4 March 2015.

The minutes and all PowerPoint Presentations held during the workshop are publically available on the following web-sites:

CEER:

[http://www.ceer.eu/portal/page/portal/EER\\_HOME/EER\\_INTERNATIONAL/CEER\\_Eastern\\_Partnership/4th\\_EaP\\_Workshop/Information](http://www.ceer.eu/portal/page/portal/EER_HOME/EER_INTERNATIONAL/CEER_Eastern_Partnership/4th_EaP_Workshop/Information)

European Commission:

<https://ec.europa.eu/energy/en/related-links>

The results of the discussions will be reported to the Eastern Partnership Platform on Energy Security on 19 June 2015 (date tbc).

## **Workshop meeting on 26 March 2015**

Participants were **welcomed** by Sergiu Ciobanu, Director of Moldovan Energy Regulatory Authority ANRE, Tomislav Jurekovic, Vice-President of the Council of European Energy Regulators (CEER), and Marion Schiller-Probst, international relations officer in Directorate-general Energy of the European Commission. Speakers underlined the need to adapt cooperation in the energy field to the changes which occurred in all partner countries during the last years in the energy sector and the need to continue cooperation with the EU on energy related issues not only at bilateral but also at regional level.

Speakers highlighted the importance of technical seminars such as this workshop which helps bringing together policy makers and regulators and conducting an informed dialogue with relevant experts, thus, effectively complementing the ongoing policy dialogue. They added that the focus chosen for this workshop - tariff models and regulatory incentives - was of interest to all stakeholders in the value chain, producers, transmission services and end-users and underlined that an independent energy regulation was crucial to build the confidence among all those involved.

**The morning session** was moderated by CEER Vice-President Tomislav Jurekovic. This session focused on the transition in the EU from cost-based tariffs towards incentive regulation as well as on the overall circumstances in the Eastern Partner countries, as shown in the INOGATE's Tariff review in the Eastern Partnership region. Partner countries gave an insight in their specific country approaches and the different challenges they are facing.

As to the transition of the tariff design in the EU, Tom Maes from the CREG Belgium, focused in his presentation on the process from setting allowed revenues to cover costs emanating from the transportation of energy towards fixing the tariffs via an incentive regulation taking into consideration cost efficiency, service quality and the necessary investments. He gave an outlook on the ongoing work towards the future EU network code on harmonised gas transmission tariff structures. This is focusing on transparency, efficient trade and competition, avoidance of cross-subsidies and discrimination and a framework for efficient investment.

John Swinscoe presented the INOGATE Tariff Review which looks at electricity and gas tariffs in the Eastern Partnership region and in Central Asian countries. This review reveals the heterogeneous situation in the partner countries as far as the following aspects are concerned: ratio population versus final energy consumption, the generation, exports and imports and consumption of energy, the individual countries' market structure as to existing independent energy regulators, the unbundling of generation and transmission and the wholesale market in electricity and gas. Based on the information received from the partner countries, the review also tells about different tariff models, existing kinds of subsidies (cross, implicit and explicit) and end-user tariffs, both in the electricity and the gas sector which seem to be depending on whether a country is an energy producer or not. The study showed that in the countries there is varying progress compared to key EU policy objectives: limited progress in unbundling, in independent regulation, low wholesale costs, large variations in import prices, little transparency on prevailing subsidies and strong correlation between gas and electricity tariffs.

This picture was completed by the individual country presentations on their tariff models and regulatory incentives which can be summarized as follows<sup>1</sup>:

Moldova – Elena Stratulat (ANRE): The system in Moldova disposes of a rather recent legal framework covering electricity, natural gas, heat and promotion of cogeneration, water supply and sewage. Tariff methodologies are in place which are drafted, approved, supervised and monitored by the national energy regulatory agency ANRE. The principles of tariff policy include reliable energy supply, maximum efficiency at minimum costs, necessary and justified costs, cost-based, transparency, non-discrimination, predictability and proportionality between the interests of entrepreneurs and customers. The factors influencing the tariffs include the costs for energy production, transportation, distribution and of imported energy, the volumes of energy supplied, depreciation of fixed assets, tariff deviations and the rate of return. There are no state subsidies to the regulated enterprises. Low income or vulnerable customers can receive compensation directly by the local authorities.

Ukraine – Oksana Kryvenko and Kateryna Nebrat (National Energy and Utilities Regulatory Commission (NEURC)): On April 1, 2015 a new pricing/tariff model for gas took effect in the form of a so called “block” system which distinguishes between different forms of gas usage, namely cooking/water heating and heating of living space. Different seasonal prices are applied in these categories. The old system was less complex and only took the total gas usage per year into account. In the electricity sector, various tariff methodologies were elaborated, including the components of the corresponding mathematical formulas. Explanations and statistical data on transmission and distribution tariffs were presented alongside factual information on electricity wholesale and retail prices in Ukraine.

Belarus – Denis Bibikov (Ministry of Economy): Electricity tariff regulation in Belarus is performed by the Ministerial Council and the Ministry of Economy. There is a legal distinction between state subsidized tariffs and cost reflective tariffs. While elaborating on the details of the current tariff levels in force as set out in various legal decrees, it was explained that average household electricity tariffs are significantly lower than the cost incurred for production, transmission and distribution of electricity while average tariffs of legal entities were higher in order to compensate in parts for the low household tariffs. Some basic principles in tariff setting were also listed including the fact that tariff calculations must also be aligned with state environmental and social policies in force.

Georgia – Sergo Latsabidze (National Energy and Water Supply Regulatory Commission (GNERC)): Georgia disposes of a legal framework, electricity tariff setting methodologies and tariff applications approved by the GNERC. The tariff regulatory model covers generation, electricity capacity source, transmission, dispatch and distribution. Tariff setting methodologies entail i) distribution, pass through and consumption tariffs based on incentive and cost-plus regulation, ii) generation, transmission, dispatch and market operator service based on cost-plus regulation and iii) regulated assets depreciation/amortization rates.

Armenia – Artyom Ghazaryan (Public Services Regulatory Commission): Armenia pointed out that one of the government priorities in the field of energy was to achieve more independence through effective use of domestic resources and proper economic incentives

---

<sup>1</sup> For more details, please refer to the individual PowerPoint Presentations accessible via

<https://ec.europa.eu/energy/en/related-links>

to exploit renewable energy. Tariff methodologies were designed in this direction by the Public Services Regulatory Commission especially with a view to incentivize the construction of small hydro power plants. As a result, the number of hydro power plants grew from 52 in 2007 to 165 today. The system was refined over the years.

Azerbaijan – Samir Rahimov (State Agency of Alternative and Renewable Energy Sources): The legal framework in Azerbaijan covers energy, the utilization of energy resources, electric and thermal power plants and power engineering. The main stakeholders making and preparing decisions are the Ministry of Energy, the State Agency on alternative and renewable energy sources and the Tariff Council. The latter establishes the tariff methodology, approves the tariff level proposed by regulated companies, proposes changes to the legal framework as it relates to pricing; and settles disputes regarding price regulation and tariff application. The Council is composed by representatives of a high number of concerned ministries as well as the state committees for customs and construction and architecture. The present energy tariffs cover wholesale, small hydropower plants, wind power plants, transmission of electricity and retail. The Azerbaijani power supply system is composed by the largest electricity producer Azerenerji, the very recently established Azerishiq which is responsible for the transmission to the consumer and the State Agency of the Nakhchivan Autonomous Republic which generates, transmits, distributes and supplies electricity to its consumers.

The **afternoon session** was moderated by Marion Schiller-Probst from the European Commission. This session focused on the management of transitions in tariff regulations based on the case study of Croatia as a new EU Member State and on the results of a twinning project on tariffs between Georgia and Austria. The session was rounded off by the investors' perspective on the impact of regulatory incentives and an EU policy outlook towards uniform and binding Network Codes.

In his capacity as Commissioner at the Croatian Energy Regulator (HERA), Tomislav Jurekovic gave an insight into the process Croatia, the EU's newest Member State, went through in the last 10 to 15 years. The management of this transition proved to be difficult as it had to deal with the heritage of the former system, the new EU environment for which the then candidate country had to make itself live up to and the rapidly changing energy and regulatory scene. The process also was different in the electricity and in the gas sector due to differing history and structures. The main messages from the lessons learned include the following: the market opening and the establishment and fine-tuning of tariff methodologies needs proper preparation and takes several years (7 in the case of Croatia). In gas systems, distribution remains the most vital element with important challenges related to tariffing, upgrading the methodology, providing incentives for grid investments, market monitoring, dealing with declining gas sales, changing consumption patterns and being a transparent interface for the customers and all stakeholders.

Dietmar Preinstorfer (E-Control Austria) and Sergo Latsabidze (GNERC) reported on the successful twinning project on tariffs between Austria and Georgia. The long-term benefits for Georgia lie in bringing the country one step closer to the EU energy regulation, creating a positive impact on investments, strengthening the regulatory independence and increasing the quality of network operations. The project focused on transmitting know-how of EU

standards, increasing institutional capacity, promoting transparency in regulation and decision making, establishing additional international contacts and improving English language skills. The major objective of the project was to establish incentive regulation through the application of incentive mechanisms for the increase of companies' energy efficiency by the cost optimization. This goal was achieved.

Alexandrina Robu from the Employers' Association in the Energy Sector of the Republic of Moldova (APDE) shared the investors' perspective on the impact of regulatory incentives with the audience. APDE was created only in September 2014 and represents Moldova in Eurelectric<sup>2</sup>. APDE is calling for a sound regulatory framework and an empowering governance as decisive preconditions for investments. Moldova being member of the Energy Community, APDE refers to the Eurelectric's 10-step action plan with the view to secure energy investments in the Energy Community. For the APDE, this means notably making progress in improving the country's regulatory set-up, fostering competition among market players, boost regional market integration notably with Ukraine and Romania, opting for enhanced energy efficiency and appropriate information of the public, and making full use of the opportunities, the Energy Community can offer to its members.

Marion Schiller-Probst (European Commission) rounded off by providing an outlook towards uniform and binding Network Codes in the EU. The issue is integral part of the recently presented Framework Strategy for a Resilient Energy Union with a Forward Looking Climate Change Policy<sup>3</sup>, the third internal energy market package and the progress made so far as well as the challenges ahead within the EU. Network codes are considered as one software instrument to optimise capacity calculation and to aggregate EU-wide bids and offers in an integrated energy market. They are a set of rules that aim to facilitate the harmonization, integration and efficiency of the European electricity and gas market and to provide the regulatory framework for access of 3rd parties. Developing and adopting network codes is a long and complex process which needs to be done in a participatory approach involving all concerned stakeholders from the production to the end-user. Examples for adopted network codes in the EU include the gas congestion management, the gas capacity allocation mechanisms, gas balancing and electricity market coupling. Network codes currently under development include incremental capacity and tariffs in the gas sector and system operation, emergency and response, balancing and grid connection rules in the electricity sector. All network code should be finalised by the end of 2015.

Questions of participants focused mainly on the case study of Croatia and its transition process. They covered the aspects of how the Croatian Energy Regulator did involve stakeholders throughout the process, the relation to its neighbouring countries in the process, and the decision-making on the methodology used.

During the **wrap-up**, speakers again reiterated what was expressed in the different presentations during the day: Tariff design and incentive regulation need to go hand-in-hand.

---

<sup>2</sup> <http://www.eurelectric.org/about-us/>

<sup>3</sup> [http://ec.europa.eu/priorities/energy-union/index\\_en.htm](http://ec.europa.eu/priorities/energy-union/index_en.htm)

The process is complex and therefore needs time to be properly prepared in an independent and transparent way with all stakeholders involved.

The workshop is considered a very useful platform bringing together regulators and decision-making authorities as well as civil society. The workshop clearly showed the important bottom-up work of independent regulators for the market by adding transparency, stability, predictability and visibility. The presentations given by partner countries showed their will to continue being involved in the harmonization of the markets and their efforts undertaken in reforming and adapting their national tariff setting systems. Partner countries called for further strengthening the capacity of qualified experts in their countries, including through twinning projects. The results of this workshop will be reported during the up-coming 13<sup>th</sup> meeting of the Eastern Partnership Platform on energy security in Brussels on 19 June 2015 (date to be confirmed).

## **Field trip to the Interconnection gas pipeline between Romania and the Republic of Moldova: the Iasi (Romania) – Ungheni interconnector, on 27 March 2015**

The workshop included a visit to the Iasi (Romania) – Ungheni interconnector. Staff at the Interconnector site guided the participants through the installation and informed about the main elements of its history, construction, its objectives and its actual and future designed capacity.

Construction started in August 2013 and the 1<sup>st</sup> gas supplies from Romania to Moldova passed on 4 March 2015.

The project is implemented by the National Agency for Mineral Resources in partnership with the Ministry of Economy of the Republic of Moldova.

The total cost of the Iasi-Ungheni interconnection gas pipeline is cca €26 million, including the EU contribution of around €7 million. The gas pipeline (DN 500, 50 bar) with a total length of 43.2 km, has a capacity of 1.5 billion cubic meters. Initially cca 50 million cubic meters per year will be supplied from Romania (for information - the country's annual consumption in 2013 was about 1 billion cubic meters of gas, without Transnistria).

The major **objectives** of this project are to:

1. Ensure a higher level of energy security for the Republic of Moldova and for the eastern part of Romania by diversifying the sources of gas supply.
2. Increase social and economic development of urban and rural areas within the North-east bordering regions of Romania and of the Republic of Moldova by increasing the capacity and interoperability of energy supply network.
3. Enhance the sustainability and the quality of energy infrastructure within the target area by implementing modern technologies.
4. Strengthen the cross-border cooperation between Romania and Republic of Moldova, as well as between the local public administrations, in the field of energy management and consolidation of their capacities to generate and implement joint projects.

A feasibility study on extending the Ungheni-Iasi gas pipeline to Chisinau is presently carried out, and according to estimations, this eventual connection construction would be completed by late 2017. Investments amounting to over 80 million euros, of which 10 million will be financed by the EU, are necessary for extending the gas pipeline to Chisinau. Its capacity will be 1.5 billion cubic meters per year, more than Moldova's annual consumption.

Enclosures: Agenda, participants list